

Message Text

CONFIDENTIAL

PAGE 01 MEXICO 15078 300115Z

70

ACTION EB-03

INFO OCT-01 SS-14 ISO-00 ARA-06 INR-05 CIAE-00 NSC-05

NSCE-00 OMB-01 SP-02 /037 W
----- 041129

R 292350Z NOV 76

FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 8916
INFO TREASURY WASHDC

C O N F I D E N T I A L MEXICO 15078

LIMDIS

EO 11652 : GDS

TAGS : EFIN MX

SUBJ : RECENT AND FUTURE CHANGES IN THE MONEY SUPPLY

1. MEXICO'S MONEY SUPPLY IS BEING AFFECTED BY THE
"DOLLARIZATION" OF THE ECONOMY, BUT THE MOST IMPORTANT EXPANSIONARY
FACTOR REMAINS CENTRAL BANK CREDIT, ALMOST ALL OF WHICH GOES TO
THE PUBLIC SECTOR. IN ADDITION, THE MONEY SUPPLY JUMPS
SUBSTANTIALLY IN DECEMBER DUE TO THE PAYMENT TO MOST SALARIED
WORKERS OF BONUSES EQUIVALENT TO ONE MONTH'S SALARY. THE
BULK OF THIS INCREASE APPEARS TO BE FINANCED BY CENTRAL
BANK CREDIT TO THE GOVERNMENT.

2. IN THE FIRST EIGHT MONTHS OF 1976, THE MONEY SUPPLY
DEFINED AS PESO CURRENCY AND PESO DEMAND DEPOSITS INCREASED
AT AN ANNUAL AVERAGE RATE OF 19.4 PERCENT. BROADENING THE
DEFINITION TO INCLUDE DOLLAR DEMAND DEPOSITS, THE AVERAGE
INCREASE WAS 20.1 PERCENT. IN THE LAST FOUR MONTHS OF
THE YEAR, THE PESO MONEY SUPPLY IS EXPECTED TO INCREASE AT
AN AVERAGE ANNUAL RATE OF 26.6 PERCENT WHEREAS
INCLUDING DOLLARS, THE AVERAGE INCREASE WILL BE ABOUT
32.5 PERCENT. MUCH OF THIS DIFFERENCE IS DUE TO THE
INCREASE IN THE PESO VALUE OF DOLLAR DEMAND ACCOUNTS
AS A RESULT OF THE DEVALUATION. WE ESTIMATE THE
DECEMBER TO DECEMBER INCREASE IN THE EXPANDED MONEY
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MEXICO 15078 300115Z

SUPPLY WILL BE 37.3 PERCENT. THE LATEST DATA AVAILABLE

(FOR SEPTEMBER) SHOWS A YEAR TO YEAR INCREASE OF 30 PERCENT. EVEN PRIOR TO THE DEVALUATION, DOLLAR DEMAND DEPOSITS WERE THE FASTEST GROWING COMPONENT OF THE EXPANDED MONEY SUPPLY, UP 37 PERCENT FROM END-AUGUST 1975 TO END-AUGUST 1976. (SEE TABLE I.).

3. WHILE THE DEVALUATION HAS HAD A SIGNIFICANT IMPACT ON THE MONEY SUPPLY, THE MOST IMPORTANT FACTOR WOULD APPEAR TO BE CENTRAL BANK CREDIT, PART OF WHICH IS DENOMINATED IN FOREIGN EXCHANGE. TABLE II, BASED ON STATISTICS FOR THE BANKING SYSTEM, LISTS FACTORS AFFECTING THE MONEY SUPPLY. AS CAN BE NOTED, INCREASES IN LIABILITIES OF THE BANKING SYSTEM IN PESOS AND IN FOREIGN EXCHANGE, (ROUGHLY ONE-THIRD OF WHICH ARE IN THE FORM OF DEPOSITS AND THE BALANCE IN THE FORM OF FOREIGN BORROWINGS MOSTLY BY PUBLIC FINANCIAL INSTITUTIONS) HAVE BEEN EXCEEDED BY INCREASES IN CREDIT. WHILE THE CENTRAL BANK OBTAINS SOME OF THE BANKING SYSTEM'S RESOURCES THROUGH ITS RESERVE REQUIREMENTS, THESE HAVE NOT FULLY OFFSET THE INCREASE IN ITS CREDIT, THEREBY PUTTING UPWARD PRESSURE ON THE MONEY SUPPLY. THE ESTIMATE FOR CENTRAL BANK CREDIT IN 1976 IS BASED ON AN ACTUAL 62.5 BILLION PESO INCREASE IN CREDIT FROM END-1975 TO OCTOBER 29. WE PRESUME CENTRAL BANK CREDIT IN NOVEMBER AND DECEMBER WILL INCREASE BY ABOUT TWO-THIRDS OF ITS ESTIMATED INCREASE IN THE MONEY SUPPLY IN THE SAME PERIOD (37 BILLION PESOS). THIS WOULD BE MORE OR LESS IN LINE WITH DEVELOPMENTS IN PREVIOUS YEARS. THE ESTIMATES FOR CREDIT BY A NATIONAL AND PRIVATE FINANCIAL INSTITUTIONS ARE BASED ON DATA THROUGH AUGUST, WITH AN ESTIMATE FOR CHANGES IN VOLUME DUE TO THE DEVALUATION. ON THE LIABILITY SIDE, WE ASSUME NO INCREASE IN QUASI-MONEY DENOMINATED IN PESOS. PESO-DENOMINATED DEPOSITS DID INCREASE THROUGH AUGUST, BUT DATA ON DEPOSITS OF PRIVATE BANKS IN THE BANK OF MEXICO INDICATE PESO DEPOSITS HAVE DECLINED WHEREAS FOREIGN CURRENCY DEPOSITS HAVE INCREASED.

4. STUDIES BY THE BANK OF MEXICO INDICATE A STRONG CORRELATION BETWEEN THE GROWTH IN THE MONEY SUPPLY AND

CONFIDENTIAL

PAGE 03 MEXICO 15078 300115Z

PRICE CHANGES, WITH AN ELEVEN-MONTH LAG. THE DEVALUATION SHOULD ALTER THIS, PROBABLY BY REDUCING THE LAG. IT WOULD APPEAR LIKELY THAT PRICE CHANGES IN 1977 WILL AVERAGE 30 PERCENT, OR MORE.

5. IT IS ALSO EVIDENT THAT TO CONTROL THE GROWTH IN THE MONEY SUPPLY, CENTRAL BANK LENDING MUST SLOW DOWN. ALSO, INTEREST RATES ON FIXED-TERM PESO DEPOSITS MUST

BE SUCH AS TO INCREASE THE RATE OF GROWTH OF THE PESO QUASI-MONEY. OTHERWISE THE TENDENCY TO HOLD FUNDS IN DOLLARS RATHER THAN PESOS WILL CONTINUE. SOME MEXICANS DO NOT EXPRESS CONCERN OVER THIS. AS LONG AS THE EXCHANGE RATE DOES NOT CHANGE DRAMATICALLY AND THERE IS CONFIDENCE THAT THESE ACCOUNTS WILL NOT BE FROZEN, THEY ARGUE THAT THE "DOLLARIZATION" IS NOT NECESSARILY BAD. IN ANY CASE, THE TENDENCY TO USE THE DOLLAR AS A STORE OF VALUE CONSTRAINS THE MONETARY AUTHORITIES' ABILITY TO CONTROL THE MONEY SUPPLY, AND/OR TO RUN A MONETARY POLICY THAT DIFFERS FROM THAT OF U.S. AUTHORITIES.

TABLE I

YEARLY PERCENT CHANGES IN COMPONENTS OF MONEY SUPPLY.

I	II	III	IV	V	
PESO	PESO	M1	DOLLAR		
CURRENCY	DEMAND	PESOS	DEMAND		
	DEPOSITS	DEPOSITS	TOTAL		
JAN-AUG.	21.3	18.0	19.4	36.5	20.1
SEPT.	38.4	18.6	27.0	115.2	30.0
OCT. (E)	35.0	13.0	22.6	233.7	29.2
NOV. (E)	42.0	13.1	25.8	289.4	33.6
DEC. (E)	43.4	21.2	31.0	218.8	37.3

SOURCE: BANK OF MEXICO STATISTICS AND ESTIMATES.

TABLE II

FACTORS AFFECTING MONEY SUPPLY
(IN BILLIONS OF PESOS)

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 MEXICO 15078 300115Z

	1974	1975	1976(E)		
I. CHANGE IN MONEY SUPPLY			16.9	21.2	45.6
1. PESOS		17.6	20.7	36.7	
2. DOLLARS		-.7	.5	8.9	
II. CHANGE IN FACTORS THAT TEND TO EXPAND MONEY SUPPLY			63.6	105.8	165.0
1. CREDIT OF CENTRAL BANK.	35.1	41.2	90		
2. CREDIT OF PUBLIC FINANCIAL INSTITUTIONS			24.1	33.5	50
3. CREDIT OF PRIVATE FINANCIAL INSTITUTIONS			13.9	26.7	35
4. INTERNATIONAL RESERVES			.5	4.2	-10

III. CHANGE IN FACTORS THAT

TEND TO CONTRACT THE MONEY SUPPLY 46.7 84.6 119.4

1. QUASI-MONEY (PESOS) 26.2 51.9 0

2. FOREIGN EXCHANGE LIABILITIES

(EX-DOLLAR DEMAND DEPOSITS) 19.8 29.0 115

3. OTHER .7 3.7 4.4

SOURCE: BANK OF MEXICO AND WORLD BANK.

JOVA

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, CENTRAL BANK, CURRENCIES, CREDIT CONTROLS, FOREIGN EXCHANGE RATES, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 NOV 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MEXICO15078
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760442-0815
From: MEXICO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976117/aaaaaggi.tel
Line Count: 179
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 21 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 JUL 2004 by BoyleJA>; APPROVED <05 NOV 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RECENT AND FUTURE CHANGES IN THE MONEY SUPPLY
TAGS: EFIN, MX
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006